

Annual Governance Report

June 2006



Annual Governance Report

Royal Berkshire Fire Authority

Audit 2005/06

External audit is an essential element in the process of accountability for public money and makes an important contribution to the stewardship of public resources and the corporate governance of public services.

Audit in the public sector is underpinned by three fundamental principles:

- auditors are appointed independently from the bodies being audited;
- the scope of auditors' work is extended to cover not only the audit of financial statements but also value for money and the conduct of public business; and
- auditors may report aspects of their work widely to the public and other key stakeholders.

The duties and powers of auditors appointed by the Audit Commission are set out in the Audit Commission Act 1998 and the Commission's statutory Code of Audit Practice. Under the Code of Audit Practice, appointed auditors are also required to comply with the current professional standards issued by the independent Auditing Practices Board.

Appointed auditors act quite separately from the Commission and in meeting their statutory responsibilities are required to exercise their professional judgement independently of both the Commission and the audited body.

Status of our reports to the Authority

The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director or officer in their individual capacity; or
- any third party.

Copies of this report

If you require further copies of this report, or a copy in large print, in Braille, on tape, or in a language other than English, please call 0845 056 0566.

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Purpose of this report

- 1 We are required by the Audit Commission's statutory Code of Audit Practice (the Code) to issue a report to those charged with governance summarising the conclusions from our audit work.
- 2 We are also required by professional auditing standards to report certain matters before we give our opinion on the financial statements. The section of this report covering the financial statements fulfils this requirement.
- 3 This is our annual governance report covering the audit of the Authority for the year ended 31 March 2006 and is presented by the District Auditor.
- 4 The principle purposes of the report are:
 - to reach a mutual understanding of the scope of the audit and the respective responsibilities of the auditor and the Authority;
 - to share information to assist both the auditor and the Authority to fulfil their respective responsibilities; and
 - to provide the Authority with recommendations for improvement arising from the audit process.
- 5 The Audit Commission has circulated to all audited bodies a Statement of Responsibilities of Auditors and Audited Bodies that summarises the key responsibilities of auditors. Our audit has been conducted in accordance with the principles set out in that statement.

Scope of the report

- 6 In undertaking our audit, we comply with the statutory requirements of the Audit Commission Act 1998 and the Code. Auditors' responsibilities are to review and report on, to the extent required by the relevant legislation and the requirements of the Code:
 - the Authority's financial statements; and
 - whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.
- 7 Our risk assessment and planned response to the key audit risks was summarised in our audit plan. A summary of our responsibilities and audit approach is included in Appendix 1. This annual governance report summarises the significant findings, conclusions and recommendations arising from our work.
- 8 We have issued separate reports during the year following completion of specific aspects of our programme, which are listed in Appendix 2. Appendix 3 provides information about the fee charged for our audit and in Appendix 4 we confirm that we have met professional requirements in respect of integrity, objectivity and independence.

Key messages

Financial statements

- 9 Our work on the Authority's financial statements is substantially complete and we intend to issue an unqualified opinion. A draft audit report is attached at Appendix 5.

Value for money conclusion

- 10 Our work on the Authority's arrangements to secure economy, efficiency and effectiveness in its use of resources is also largely complete. We anticipate issuing an unqualified conclusion on the use of resources. A draft report is also attached at Appendix 5.

Financial statements

- 11 We are required to give an opinion on whether the Authority's financial statements present fairly the financial position as at 31 March 2006 and its income and expenditure for the year then ended.

Status of the audit

- 12 Our work on the financial statements is now complete.

Matters to be reported to the Authority

- 13 We are required to bring to your attention any issues concerning the following:
- expected modifications to the auditor's report. On the basis of our audit work, subject to the satisfactory conclusion of any work outstanding reported above, we currently propose to issue an unqualified audit opinion. A draft audit report is attached at Appendix 5;
 - uncorrected misstatements - we have no significant matters to report;
 - adjusted misstatements - we have no material adjusted misstatements to report;
 - qualitative aspects of accounting practices and financial reporting. We have no matters that we wish to report to you;
 - material weaknesses in internal control identified during the audit. We have identified improvements to controls but they are of not a material nature to bring to the attention of the Authority; and
 - other matters specifically required by other auditing standards, including where we suspect or detect fraud; where there is an inconsistency between the financial statements and other information in documents containing the financial statements; and non-compliance with legislative or regulatory requirements and related authorities – there are no other matters to report.

Letter of representation

- 14 We obtain written representations from management as an acknowledgement of its responsibility for the fair presentation of the financial statements and as audit evidence on matters material to the financial statements. The text of the proposed letter of representation is included at Appendix 6.

Use of resources

Value for money conclusion

- 15 The Code requires us to reach a conclusion on whether we are satisfied that the Authority has proper arrangements in place for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion). In meeting this responsibility, we review evidence that is relevant to the Authority's corporate performance management and financial management arrangements. Our work in reaching the value for money conclusion is integrated with our other audit work and is based on arrangements put in place by the authority for:
- setting, reviewing and implementing its strategic and operational objectives;
 - channels of communication with service users and other stakeholders including partners, and monitoring arrangements to ensure that key messages about services are taken into account;
 - monitoring and scrutiny of performance, to identify potential variances against strategic objectives, standards and targets, for taking action where necessary, and reporting to members;
 - monitoring the quality of published performance information, and to report the results to members;
 - maintaining a sound system of internal control;
 - managing significant business risks;
 - managing and improving value for money;
 - putting in place a medium-term financial strategy, budgets and a capital programme that are soundly based and designed to deliver its strategic priorities;
 - ensuring that spending matches its available resources;
 - managing performance against budgets;
 - management of the asset base; and
 - promoting and ensuring probity and propriety in the conduct of its business.
- 16 We propose to issue a report providing an unqualified value for money conclusion and there are no matters to raise at this stage with members.
- 17 The criteria for the VFM conclusion and the Use of Resources (UoR) judgement due to be made later this year under the Fire Performance Framework are closely linked. The code required a VFM Conclusion to be completed by 30 September whilst the UoR judgement timetable is to be undertaken from October onwards. The UoR judgement will involve a more in depth assessment than that required for the VFM conclusion and with the authority to be assessed as being at one of four levels. This will be reported in our annual audit letter in March 2007.

Closing remarks

- 18 The Authority has taken a positive and constructive approach to our audit and I would like to take this opportunity to express my appreciation for the assistance and co-operation provided.

Mick West
District Auditor

September 2006

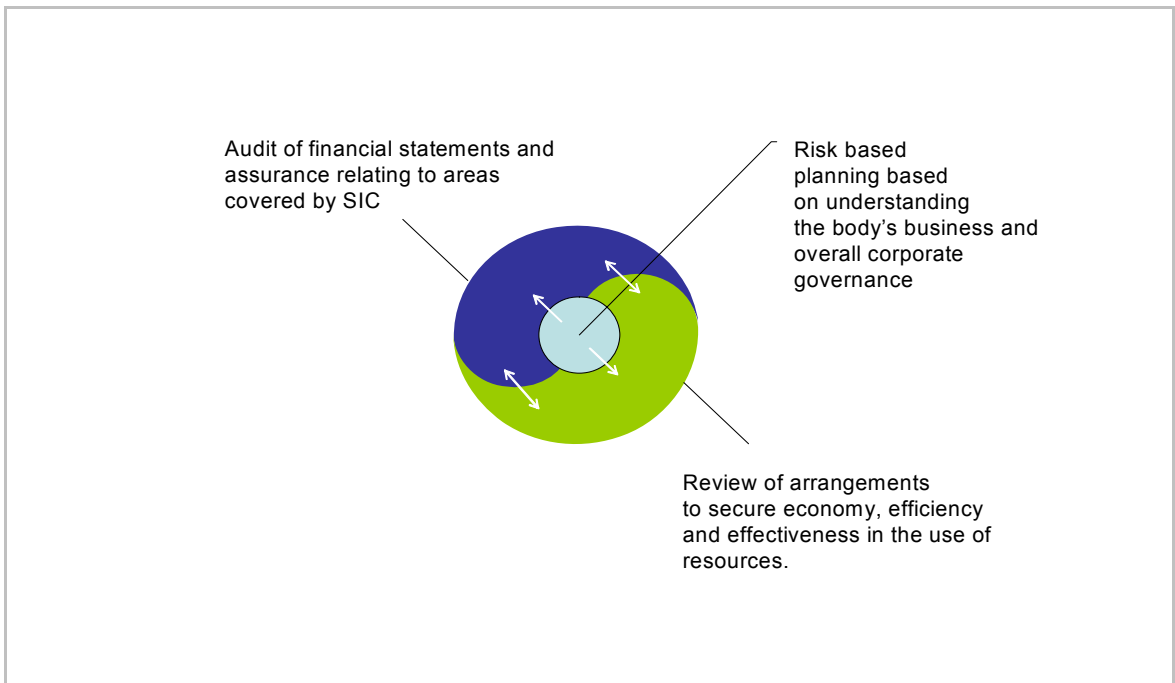
Appendix 1 – Audit responsibilities and approach

Audit responsibilities

- 1 Our responsibility as your appointed auditor is to plan and carry out an audit that meets the requirements of the Audit Commission's Code of Audit Practice. We adopt a risk-based approach to planning our audit, and our audit work has focused on the significant risks that are relevant to our audit responsibilities.

Figure 1 Code of Audit Practice

Code of practice responsibilities



Auditing the financial statements

- 2 In our approach to auditing the financial statements, we adopt a concept of materiality. Material errors are those which might be misleading to a reader of the financial statements. We therefore seek, in planning and conducting our audit of the accounts, to provide reasonable assurance that your financial statements are free of material misstatement. In planning our work we considered the arrangements of the Authority which had most impact on our opinion. These included:
 - the standard of the overall control environment and internal controls;
 - the extent to which we could rely on the work of internal audit;
 - the likelihood of material misstatement occurring from material information systems; or a material error failing to be detected by internal controls;
 - any changes in financial reporting requirements; and
 - the effectiveness of procedures for producing the financial statements and supporting material.
- 3 The results of the above feed into our risk assessment which determines the level and type of testing undertaken on each element of the financial statements. The keys risks that we identified have been identified in the audit plan.

Auditors' responsibilities in relation to the use of resources

- 4 Auditors have a responsibility to satisfy themselves that the audited body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The scope of these arrangements is defined in the Code as comprising corporate performance management and financial management arrangements.
- 5 The auditor is required to give a conclusion (the value for money conclusion) having regard to criteria specified by the Commission covering specific aspects of audited bodies' arrangements as defined in the Code. These criteria have been published on the Commission's website.
- 6 In planning audit work in relation to the use of resources, we considered and assessed relevant significant business risk. Significance is defined by the Code as 'a matter of professional judgment and includes both quantitative and qualitative aspects of the risk'.

Appendix 2 – Audit reports issued

Table 1

Planned output	Planned date of issue	Actual date of issue	Addressee
Audit plan	February 2005	March 2005	Authority
Interim audit memorandum	May 2006	May 2006	Treasurer
Final accounts memorandum	July 2006	July 2006	Treasurer
Report to those charged with governance (ISA 260)	September 2006	September 2006	Authority
Annual audit and inspection letter	October 2006	March 2007 (planned)	Authority

Appendix 3 – Fee information

Table 2

Fee estimate	Plan 2005/06	Actual 2005/06
Accounts	34094	34094
Use of resources	13669	13669
Total audit fee	47763	47763

Appendix 4 – Integrity, objectivity and independence

- 1 We are required by ISA (UK and Ireland) 260 and the Auditing Practices Board Ethical Standard 1 to communicate following matters to the Authority:
 - the principal threats, if any to objectivity and independence identified by the auditor, including consideration of all relationships between the Authority, directors and the auditor;
 - any safeguards adopted and the reasons why they are considered to be effective;
 - any independent partner review;
 - the overall assessment of threats and safeguards; and
 - information about the general policies and processes for maintaining objectivity and independence.
- 2 We are not aware of any relationships that may affect the independence and objectivity of the team, and which are required to be disclosed under auditing and ethical standards.

Appendix 5 – Royal Berkshire Fire and Rescue Authority

Opinion on the financial statements

- 1 I have audited the financial statements of Royal Berkshire Fire Authority for the year ended 31 March 2006 under the Audit Commission Act 1998. These comprise the Consolidated Revenue Account, the Consolidated Balance Sheet, the Statement of Total Movements in Reserves, the Cash Flow Statement and the related notes. These financial statements have been prepared under the accounting policies set out within them.
- 2 This report is made solely to Royal Berkshire Fire Authority in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Chief Finance Officer and auditors

- 3 The Chief Finance Officer's responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005 are set out in the Statement of Responsibilities.
- 4 My responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).
- 5 I report to you my opinion as to whether the financial statements present fairly the financial position of the Authority in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005.
- 6 I review whether the statement on internal control reflects compliance with CIPFA's guidance, 'The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003' published on 2 April 2004. I report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the statement on internal control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures

- 7 I read other information published with the financial statements, and consider whether it is consistent with the audited financial statements. This other information comprises only the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the financial statements. My responsibilities do not extend to any other information.

Basis of audit opinion

- 8 I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.
- 9 I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

- 10 In my opinion the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005, the financial position of the Authority as at 31 March 2006 and its income and expenditure for the year then ended.

Mick West
District Auditor
Audit Commission
Date

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's responsibilities

- 11 The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to regularly review the adequacy and effectiveness of these arrangements.
- 12 Under the Local Government Act 1999, the Authority is required to prepare and publish a best value performance plan summarising the Authority's assessment of its performance and position in relation to its statutory duty to make arrangements to ensure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

Auditor's responsibilities

- 13 I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for other local government bodies. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.
- 14 I am required by section 7 of the Local Government Act 1999 to carry out an audit of the authority's best value performance plan and issue a report certifying that I have done so;
 - stating whether I believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and
 - where relevant, making any recommendations under section 7 of the Local Government Act 1999

Conclusion

- 15 I have undertaken my audit in accordance with the Code of Audit Practice and I am satisfied that, having regard to the criteria for other local government bodies specified by the Audit Commission and published in August 2005, in all significant respects, Royal Berkshire Fire Authority made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2006

Best value performance plan

- 16 I issued my statutory report on the audit of the Authority's best value performance plan for the financial year 2005/06 in September 2005. I did not identify any matters to be reported to the Authority and did not make any recommendations on procedures in relation to the plan.

Certificate

- 17 I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Mick West
District Auditor
Audit Commission
Date

Appendix 6 – Draft management representation letter

To: Mr Mick West
District Auditor
Audit Commission
North Wing
Southern House
Sparrowgrove
Otterbourne
Winchester
Hampshire
SO21 2RU

Royal Berkshire Fire and Rescue Authority – 2005/06 Accounts

I confirm to the best of my knowledge and belief, having made appropriate enquiries of other officers of Berkshire Fire and Rescue Service, the following representations given to you in connection with your audit of the Authority's financial statements for the year ended 31 March 2006.

I acknowledge my responsibility under the relevant statutory authorities for preparing the financial statements which presents fairly and for making accurate representations to you. I acknowledge my responsibilities under the relevant statutory authorities to prepare the Authority's accounts in accordance with proper practices as defined in relevant legislation or guidance.

The Authority has no plans or intentions that may materially alter the carrying value or classification of assets and liabilities reflected in the financial statements.

Specific representations:

- sufficient controls have been established, and have operated, to identify, classify and record correctly transactions processed via the Authority's bank account;
- there are no other material amounts relating to unfunded liabilities, curtailments or settlements of past service costs relating to pension provision other than those which have been properly recorded and disclosed in the financial statements; and
- the steps taken by the Authority to confirm that the data used by the actuary to calculate FRS 17 disclosure information continues to be appropriate and representative of the membership profile as at 31 March 2006.

Supporting records

All the accounting records have been made available to you for the purpose of your audit and all the transactions undertaken by the Authority have been properly reflected and recorded in the accounting records. All other records and related information, including minutes of all members meetings, have been made available to you.

Related party transactions

I confirm the completeness of the information provided regarding the identification of related parties.

The identity of, and balances and transactions with, related parties have been properly recorded and where appropriate, adequately disclosed in the financial statements

Contingent liabilities

There are no other contingent liabilities, other than those that have been properly recorded and disclosed in the financial statements. In particular:

- there is no significant pending or threatened litigation, other than those already disclosed in the financial statements;
- there are no material commitments or contractual issues, other than those already disclosed in the financial statements; and
- no financial guarantees have been given to third parties.

Law, regulations and codes of practice

There are no instances of non-compliance with laws, regulations and codes of practice, likely to have a significant effect on the finances or operations of the Authority.

I acknowledge my responsibility for the design and implementation of internal control systems to prevent and detect error.

There have been no:

- irregularities involving management or employees who have significant roles in the system of internal accounting control;
- irregularities involving other employees that could have a material effect on the financial statements;
- communications from regulatory agencies concerning non-compliance with or deficiencies on, financial reporting practices which could have a material effect on the financial statements.

Post balance sheet events

No additional significant post balance sheet events that have occurred which would require additional adjustment or disclosure in the financial statements.

Signed on behalf of Berkshire Fire and Rescue Authority

Name: Dr P Bryant

Position: Chairman

Date: 18 September 2006 (RBFRA meeting date)

Name: Andrew Vallance MBA CPFA MA (Oxon)

Position: Treasurer

Date: 18 September 2006 (RBFRA meeting date)

- 1 Date: 25 September 2006 (RBFRA meeting date)